

Request for Proposal (RFP)
Indiana Board for Depositories
Collateral Management Services

Date: 10/21/2010

Introduction and Purpose of the RFP

In order to further protect Indiana public funds, the Indiana Board for Depositories (IBFD) will be requiring certain eligible depositories to collateralize public deposits held by these financial institutions. The IBFD is seeking securities services from qualified firms that include management, control, valuation, and reporting in the implementation of its collateralization program.

Background of the Indiana Board for Depositories

The IBFD is a body corporate and politic of the State of Indiana (IC 5-13-12) charged with insuring the safety of Indiana public funds deposited in eligible depositories. There are approximately 200 depositories currently eligible to hold public funds. The primary tool in executing this public purpose has been the management of the Public Deposit Insurance Fund (PDIF), which can be drawn upon to satisfy approved claims in the event of a depository closure. The PDIF currently maintains a fund balance of approximately \$300 million. Currently, earnings over and above expenses are transferred to the pension relief fund. There have been 3 bank closures in the last 20 years that resulted in a draw on the fund.

More information can be found on www.in.gov/tos/deposit.

Recent Developments

In the 2010 legislative session, Indiana General Assembly passed HEA 1336 that allows the IBFD to be more strategic in fulfilling its mission, specifically providing greater flexibility in the collateralization for public deposits. On September 23, 2010, the IBFD adopted a rule (Rule) that governs the operation of a collateralization program. The system is planned for operation beginning January, 2011. The Rule can be found on the IBFD web site at <http://www.in.gov/tos/deposit/2552.htm>.

General Description of Required Services

The IBFD is seeking securities services from qualified firms that include management, control, valuation, and reporting in the implementation and operation of its collateralization program. The Rule contemplates three components of a collateralization program.

1. Pledged collateral held by the pledging depository or its safekeeping agent. (Article 3 of Rule)
2. Pledged collateral delivered from the pledging depository to the selected IBFD collateral management agent (Collateral Manager). (Article 4 of Rule)
3. Voluntary pledging and delivery of collateral equal to 100% of public funds held by the pledging depository. (Article 5 of Rule)

The services sought are to address components 2 and 3, however supplementary services to support component 1 will be considered. Primarily, the IBFD will use commercial ratings services to assess the safety and soundness of the depositories. Those ratings, along with any other information deemed relevant by the IBFD, will determine the institutions required to pledge and/or deliver collateral and the corresponding collateral requirement. Approximately 40 depositories would be required to deliver collateral with a market value of approximately \$2 billion to the Collateral Manager.

Also at this time, there is one depository that has elected the 100% voluntary collateralization but qualifies and has chosen to use the restricted Federal Reserve account option permitted by the Rule.

Collateral Management Services for the Delivery of Securities

The required services discussed below pertain to the required delivery of collateral by the depository to the Collateral Manager. The IBFD will be the master account relationship with the Collateral Manager. The Collateral Manager will establish and maintain sub accounts within the master account relationship for each depository required to deliver collateral.

The initial collateral requirement will be communicated to each depository via the Order prescribed in the Rule. Similar information will be sent to the Collateral Manager. Any changes in the rating of the depository that will result in a different collateral requirement will be communicated in the same manner. Ratings updates are expected on a quarterly basis and, if there is a change in the collateral requirement because of the rating, a communication from IBFD to the affected depository and Collateral Manager will be sent each quarter. Individual depository ratings and the resulting collateral requirement are confidential and shall not be communicated outside of the IBFD, pledging depository and the Collateral Manager.

Acceptable Collateral

All collateral relationships will be governed by a Security Agreement between the IBFD and the depository.

Under IC 5-13-13-7 and the Rule, the IBFD will accept:

- Cash,
- Unencumbered book-entry debt securities (preferred stock is specifically excluded) such as:
 - United States Treasury securities,
 - Federal agency securities,
 - Securities of government-sponsored enterprises
- Irrevocable letters of credit issued by the Federal Home Loan Bank if the issuing FHLB maintains a rating of at least the third highest level from at least one of the nationally recognized rating agencies.

The list of acceptable collateral may change from time to time at the discretion of the IBFD.

Valuation and Collateral Management

The Collateral Manager shall perform daily mark-to-market valuation of delivered collateral. To the extent practicable, the depository shall report daily to the Collateral Manager the amount of public funds on deposit. Temporary arrangements will be developed with those depositories that cannot comply with daily reporting until the capability to do so is achieved. The Collateral Manager shall request directly from the depository additional collateral should the value fall below the required level of collateral. If the market value of the delivered collateral exceeds the required level of collateral by 10% or more, the Collateral Manager will release the excess collateral to the depository upon the request of the depository. In no case may a depository withdraw collateral if the remaining collateral value is less than the collateral requirement. The Collateral Manager shall be responsible for verifying the adequacy and eligibility of substituted collateral.

The Collateral Manager will keep a record of all communications made with a depository.

Reporting

The Collateral Manager will provide accurate daily information to the IBFD on all sub accounts. At minimum, the reports will include asset holdings and valuation by sub accounts, actual and pending settlements of collateral, and an “alert” notification of under-collateralization. A secure web-based

portal for accessing the reports and data is preferred. The Collateral Manager will provide other reasonable reports as needed by the IBFD.

RFP Procedure

In no more than 50 pages please provide the following information:

1. Please describe your companies experience in managing collateral for the protection of state and local government funds.

Specifically,

- How long have you been providing these services?
 - How many and what type of governmental agencies do you work with?
 - What is the size of the funds you are charged with safekeeping?
2. Please describe in detail the system configuration and responsibilities of the involved parties to satisfy the desired program outlined above. Also, please specifically address the following:
 - a. The extent and areas of customization needed to configure your system to the desired program and whether this would be a permanent “work around” or manual processing.
 - b. Scalability if program parameters are revised.
 3. Please provide the pricing for the services you propose.
 4. Company Contact Information
 5. Forms of Safekeeping, Collateral Management and any other Agreements the respondent believes will be required or desired to effectuate the purpose of the services sought.

The answers to this RFP will be evaluated by the staff, the Chairman, and the Secretary/Investment manager of the IBFD. The responses may also be shared with board members of the IBFD. The IBFD reserves the right to add, subtract and change requirements prior to the acceptance of a proposal. The IBFD may, at its sole discretion, determine competent bidders or responders based on information subsequently provided.

The proposals will be evaluated on:

1. Demonstrated experience in providing the requested services
2. Thoroughness of proposal
3. Innovative features that will ensure an effective and efficient collateralization program for the IBFD, depositories, and the Collateral Manager
4. Pricing of services

Send your written response in word, PDF, or other commonly used format by email to phastings@tos.in.gov.

Confidentiality

All information included in this RFP is **public information**. Information provided in response to the RFP to the Indiana Board for Depositories (IBFD) may be subject to open records requests. Any information deemed proprietary to the respondent's operations shall be delivered separately in an envelope labeled “Confidential” to the address provided below.

Questions and Clarifications

Respondents

There will be no bidders' conference. Questions are welcome and should be directed to the Contact provided below. The question and answer will be posted to the IBFD website and respondents are encouraged to check the website periodically. Every effort will be made to post the answer within 48 business hours from when the question is received.

IBFD

The IBFD reserves the right to request further detail or clarifications following receipt of any proposal up to the award of the project.

Contacts

For questions regarding this RFP, you are welcome to contact:

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Timeframe (subject to change by the IBFD)

10/21/2010 – RFP distributed and posted to website

11/08/2010 – Final date for questions from potential respondents

11/15/2010 – Proposals due

11/30/2010 – Notification of winning proposal